



Staff Report

RESOLUTION AUTHORIZING AN ADVANCE FROM THE FLEET AND EQUIPMENT MANAGEMENT FUND TO THE OPEN SPACE FUND IN THE AMOUNT OF \$1,404,518 IN LIEU OF PREVIOUSLY AUTHORIZED EXTERNAL BANK BORROWING

Honorable Mayor and Members of the City Council:

Summary

It is recommended that the City Council approve the attached resolution implementing a borrowing by the Open Space Fund from the City's Fleet and Equipment Management Fund in the amount of \$1,404,518 in lieu of an external bank borrowing to fund the purchase of the San Juan Canyon property.

Background

At a Special Closed Session Meeting held on September 15, 2009, the Council authorized staff to make a bid at a U.S. Marshal Service's tax lien sale for the acquisition of 87 parcels of land in the San Juan Canyon for Open Space preservation purposes.

On November 10, 2009, the City Council approved a Resolution Approving the Acquisition of Lands in the San Juan Canyon.

Discussion

At its November 10, 2009 meeting, the Council received a staff report on the planned funding of the purchase of the San Juan Canyon property which proposed that staff would return to the Council with a plan for financing of the above acquisition.

After extensive effort and discussion with the lending community, the City's Financial Team (Team), including the City Treasurer, staff and the City's financial advisor, have determined that a private (bank) loan for the completion of the above acquisition is not practical on terms reasonable to the City. As a result, the Team now recommends that the City handle the funding of this matter with an internal loan between the City's Open Space Fund and the Fleet and Equipment Management Fund.

The most favorable loan terms offered as a result of the previously directed process would have required the City to make a separate deposit of cash with the selected lender, followed by a pledge of that cash deposit to secure the loan. The rate of interest to be earned on the deposit would have been less than 0.75%, and the rate charged on the loan would have been in excess of 2.75%. Accordingly, the City would have been paying an interest rate differential for the privilege of borrowing its own money.

In lieu of that arrangement, the Team believes that such interest, if paid at all, would be better paid to the City's own resources. Using an inter-fund loan agreement accomplishes that goal.

Using an inter-fund loan has a minor impact on the City's liquidity. It is the Team's view that this minor reduction in liquidity is an acceptable alternative to the payment of more than 2% incremental interest to a private lender for the requested loan.

The sale proceeds of the property will be used to repay the inter-fund loan at its maturity. In the event that the sale of the portion of the San Juan Canyon property not earmarked for Open Space is insufficient, the inter-fund loan can be refinanced with an external loan in the future when the private lending environment is less distorted from the effects of the financial crisis of 2008.

The borrowing will be performed functionally the same way that the bank loan would have worked, except that the Fleet and Equipment Management Fund will become the "lender" to the Open Space Fund. Such a purchase is consistent with applicable State law for investment funds of the City and is also permitted under the same law that permits the City to use inter-fund loans for these purposes as well.

General Plan/Vision Statement

No impact.

Fiscal Impact

The total amount of the advance is \$1,404,518, which covers the expenses incurred to date as detailed below.

<u>Expense</u>	<u>Expended to Date</u>
Land	\$ 978,000
Property Taxes	411,822
Appraisal/Title/Services	14,696
Total Expended to Date	<u>\$1,404,518</u>

The advance will be repaid from the proceeds from the future resale of subdivided lots. The cost of the borrowing is expected to be considerably less than that which would have been incurred through borrowing from the bank. The form of the loan agreement authorizes a total of \$2,000,000 to be advanced subject to direction by City Council.

Further, staff has completed a five-year analysis of the Fleet and Equipment Management Fund, which indicates there are sufficient resources to make this advance as well as meet the scheduled replacements.

Public Contact

Posting of Council agenda.

Recommendation

Approve resolutions implementing the proposed borrowing arrangement.

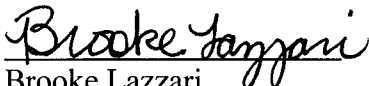
Alternatives

1. Amend the resolution to reflect different terms.
2. With direction, refer the matter back to staff for further consideration.

Attachments

- A. Resolution Authorizing an Advance between the City of Belmont Fleet and Equipment Management Fund and the Open Space Fund
- B. Form of Inter-fund Loan Agreement

Respectfully submitted,


Brooke Lazzari
Deputy Finance Director


Thomas Fil
Finance Director

Greg D. Scoles
City Manager

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RESOLUTION NO. _____

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BELMONT
AUTHORIZING AN ADVANCE FROM THE CITY'S FLEET AND EQUIPMENT
MANAGEMENT FUND AND THE OPEN SPACE FUND IN THE AMOUNT OF
\$1,404,518 FOR THE PURPOSE OF FUNDING ACQUISITION OF CERTAIN
PROPERTY IN THE SAN JUAN CANYON**

WHEREAS, on November 10, 2009, the City Council of the City of Belmont (the "City") adopted a plan for acquisition of 87 parcels of real property in the San Juan Canyon; and

WHEREAS, the fiscal year revenue and appropriation plan for the Open Space Fund is expressed in the budget documents entitled "City of Belmont FY 2011 Budget;" and

WHEREAS, the Board of Directors of the District and the City Council of the City have reviewed the proposed budgets for compliance with the goals and objectives of the community; and

WHEREAS, the City has attempted to secure bank financing for the acquisition of the San Juan Canyon property has been unsuccessful on reasonable terms; and

WHEREAS, the City Council of the City of Belmont has determined that there are sufficient unencumbered funds available to directly fund such a borrowing and not violate City Council policy on reserve fund balances or investments.

NOW, THEREFORE, BE IT RESOLVED that the City Council does hereby agree to advance from the Fleet and Equipment Management Fund reserves of the City, to the Open Space Fund an advance in the amount of \$1,404,518, not to exceed \$2,000,000 subject to City Council directive, as evidenced by an Interfund Loan Agreement dated September 28, 2010, the form of which is attached to this resolution.

* * * * *

I hereby certify that the foregoing Resolution was duly and regularly passed and adopted by the City Council of the City of Belmont at a regular meeting thereof held on September 28, 2010 by the following vote:

AYES, COUNCILMEMBERS: _____

NOES, COUNCILMEMBERS: _____

ABSTAIN, COUNCILMEMBERS: _____

ABSENT, COUNCILMEMBERS: _____

CLERK of the City of Belmont

APPROVED:

MAYOR of the City of Belmont

INTERFUND LOAN AGREEMENT
BY AND BETWEEN
THE OPEN SPACE FUND
AND
THE FLEET AND EQUIPMENT MANAGEMENT FUND

In accordance with Resolution No. _____ of the City of Belmont the following Agreement is hereby approved as of September 28, 2010 with respect to the two funds set forth above.

Amount of advance: \$1,404,518, not to exceed \$2,000,000 subject to City Council directive

Interest Rate: LAIF, re-set quarterly

Term: not exceeding 30 months from date of advance

Security: The advance and the interest thereon shall be subject to a first charge against, and shall be payable from, moneys received by the Open Space Fund attributable to all Fiscal Years commencing 2010-2011 through 2012-2013. For the purposes of this section, "revenue" includes, but is not limited to, revenue from the sale of all or a portion of the 34.48 acres of land acquired by the City at a U.S. Marshal Service's tax lien auction on September 17, 2009.

Repayment terms: Principal in full, at maturity; provided however, that (1) the City may prepay any or all advances hereunder by paying the principal amount (or portion thereof to be pre-paid) plus the accrued interest to the date of the prepayment; and (2) the City may elect to renew the loan in the event that proceeds of sale of the San Juan Canyon property are insufficient to repay the loan in full. Interest accruing from the date of this Agreement will be added to the unpaid principal amount quarterly.

This agreement may be amended with the consent of the City Council provided the amendments are consistent with the City's Investment Policy and applicable State law. This Agreement was approved by a resolution of the City Council at its meeting held on September 28, 2010

ACKNOWLEDGED:

Greg D. Scoles
City Manager

Thomas Fil
Finance Director